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April 12, 1996

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In the Matter of

**Federal-State Joint Board on
Universal Service**

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CC Docket No. 96-45

The accompanying comments, prepared by John Staurulakis, Inc. (JSI), are in response to the Notice of Proposed Rulemaking, released on March 8, 1996, in the above-referenced docket.

Any questions concerning this filing may be directed to JSI.

Sincerely,



Michael S. Fox
Director
Regulatory Affairs

Enclosures

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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Universal Service)	
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Comments of John Staurulakis, Inc.

Michael S. Fox
Director, Regulatory Affairs

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Date: April 12, 1996

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Summary

John Staurulakis, Inc. ("JSI") hereby files these comments in response to the March 8, 1996 Notice of Proposed Rulemaking released by the Federal Communications Commission ("Commission") concerning the Federal-State Joint Board ("Joint Board") on universal service. As indicated in these comments, JSI asks the Commission and the Joint Board to keep the universal service mandates of the Telecommunications Act of 1996 (the "1996 Act") in mind as they move forward in this proceeding. The principle of universally available, affordable local exchange service, in all areas of the Nation, has long been accepted and supported throughout the telecommunications industry. The 1996 Act mandates that universal service continue to be promoted even in light of the introduction of competition into local exchange telecommunications markets. JSI enthusiastically supports the universal service principles set forth in the 1996 Act.

In these comments, JSI explains the rationale for the continuation of the Commission's Part 36 jurisdictional separations rules. These rules have enabled companies serving rural, insular, and high cost areas to continue to provide affordable universal service to their customers. However, JSI is not averse to shifting the recovery of implicit universal service cost supports from interstate switched access charges, as is the current practice, to an explicit federal universal service support mechanism. What JSI opposes is shifting the recovery of these costs directly to end user customers. JSI contends that, while shifting the recovery of implicit universal service cost supports to an explicit federal universal service support fund is consistent with the 1996 Act, requiring the recovery of these costs from customers residing in rural, insular, and high cost areas

in the form of increased subscriber line charges or local rates is contrary to the mandate within the 1996 Act requiring that consumers in all areas of the Nation, regardless of where they live, have access to telecommunications services at rates that are reasonably comparable to rates charged for similar services in urban areas.¹

JSI also discusses the rationale for expanding the base of support for universal service, as authorized under section 254(d) of the 1996 Act. JSI believes that the most equitable way to ensure the continuation of universal service is to require all providers of interstate telecommunications, including transmission services, to contribute to universal service based upon their proportion of interstate gross revenues to total interstate gross revenues.

Finally, JSI provides comments that contend that it would be both administratively burdensome and in conflict with the 1996 Act for the Commission to have federal universal service support funds collected and distributed by State public utility commissions. A federal universal service support fund should be administered by the Commission, an agent of the Commission such as the National Exchange Carrier Association, or an independent third party authorized by the Commission. Similarly, any State universal service funds should be administered by the respective State commission.

¹ See Telecommunications Act of 1996, Pub. L. No. 104-104, Stat. 56 (1996) (to be codified at 47 U.S.C. sections 151 et seq.)

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Comments of John Staurulakis, Inc.

John Staurulakis, Inc. ("JSI") hereby files these comments in response to the March 8, 1996 Notice of Proposed Rulemaking released by the Federal Communications Commission ("Commission") in the above captioned proceeding.¹ JSI is a consulting firm specializing in financial and regulatory services to more than one hundred and fifty Independent Telephone Companies throughout the United States. JSI assists these companies in the preparation and submission of jurisdictional cost studies and Universal Service Fund ("USF") data to the National Exchange Carrier Association ("NECA"), and routinely prepares and files tariffs with the Commission on behalf of a number of these client companies. In that the proposals and questions raised in the NPRM will affect the jurisdictional cost recovery of its client companies, JSI is an interested party in this proceeding.

¹ See In the Matter of Federal-State Joint Board on Universal Service, Notice of Proposed Rulemaking and Order Establishing Joint Board, CC Docket No. 96-45, FCC 96-93, released March 8, 1996 (NPRM).

In response to the NPRM, JSI's comments will be limited to the twenty-five pages or less, as requested in the NPRM, and will generally follow the format of the NPRM. In addition, JSI will not address every issue within the NPRM, but will rather limit its comments to those issues about which it is most concerned.

Universal service is a long-standing objective of the Commission and the telecommunications industry. Therefore, JSI believes that the Commission and the Federal-State Joint Board ("Joint Board") should move cautiously as they fulfill their mandates of the Telecommunications Act of 1996 (the "1996 Act").² Universal service remains a very critical public policy element of telecommunications in the United States, particularly in rural communities throughout the nation. It is important that the Commission and the Joint Board maintain the commitment to universal service, as mandated by the 1996 Act, as it goes forth in this proceeding.

I. Goals and Principles of Universal Service Support Mechanisms

JSI supports the principles upon which the preservation and further advancement of universal service is to be based. These principles were clearly established in the 1996 Act, as well as in the NPRM³, and are as follows:

- (1) QUALITY AND RATES- Quality services should be available at just, reasonable, and affordable rates.
- (2) ACCESS TO ADVANCED SERVICES- Access to advanced telecommunications and information services should be provided in all regions of the Nation.
- (3) ACCESS IN RURAL AND HIGH COST AREAS- Consumers in all regions of the Nation, including

² See Telecommunications Act of 1996, Pub. L. No. 104-104, Stat. 56 (1996) (to be codified at 47 U.S.C. sections 151 et seq.).

³ See NPRM at para. 3.

low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.

(4) **EQUITABLE AND NONDISCRIMINATORY CONTRIBUTIONS-** All providers of telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service.

(5) **SPECIFIC AND PREDICTABLE SUPPORT MECHANISMS-** There should be specific, predictable and sufficient Federal and State mechanisms to preserve and advance universal service.

(6) **ACCESS TO ADVANCED TELECOMMUNICATIONS SERVICES FOR SCHOOLS, HEALTH CARE, AND LIBRARIES-** Elementary and secondary schools and classrooms, health care providers, and libraries should have access to advanced telecommunications services as described in subsection (h).

(7) **ADDITIONAL PRINCIPLES-** Such other principles as the Joint Board and the Commission determine are necessary and appropriate for the protection of the public interest, convenience, and necessity and are consistent with this Act.⁴

It is important that the Commission and the Joint Board keep these fundamental principles in mind as they proceed forward in the above captioned matter. Of particular importance to JSI, its client companies and the rural consumers that these companies serve is the third principle which requires that rural consumers continue to receive access to telecommunications and information services that are reasonably comparable to those services provided in urban areas, at reasonably comparable rates.

⁴ See The 1996 Act, section 254(b).

II. Support for Rural, Insular, and High Cost Areas and Low-Income Consumers

A. Core Services.

The NPRM seeks comment as to what services should be included among the core services receiving universal service support.⁵ JSI supports the inclusion of the core services listed in the NPRM as the minimum level of services which should receive universal service support. As indicated in the NPRM, these core services include: (1) voice grade access to the public switched network, with the ability to place and receive calls; (2) touch-tone; (3) single party service; (4) access to emergency services (911); and (5) access to operator services.⁶ However, the 1996 Act also directs the Commission to periodically review universal service and consider it as an “evolving level of telecommunications services that the Commission shall establish periodically under this section, taking into account advances in telecommunications and information technologies and services.”⁷ JSI simply asks that the Commission keep this mandate in mind as it establishes both the current definition of universal service and future modifications of this definition.

B. Business and Residence Distinctions

At paragraph 24, the NPRM asks parties to comment on whether universal service support should be limited to residential users, residential and single-line business users, or all users in rural, insular and high-cost areas.⁸ Rural economies are typically quite

⁵ See NPRM at para. 15.

⁶ Id.

⁷ See The 1996 Act, section 254(c).

⁸ See NPRM at para. 24.

dependent upon telecommunications services, both in terms of quality and price. JSI believes that universal service support in rural, insular and high cost areas should be available to all users. To exclude businesses in high cost areas from high cost assistance could result in significantly higher business rates, which could ultimately damage rural economic development if these higher rates place economic pressures on both existing and prospective businesses. Also, the 1996 Act would specifically prohibit such discriminatory treatment of business customers in rural, insular and high cost areas. As noted in paragraph 3 of the NPRM section 254(b)(3) of the 1996 Act, “(c)onsumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas.”⁹ JSI also notes that ultimately it expects to see a convergence of business and residential rates in all areas of the country. Artificial rate classifications that are not based upon underlying cost differences will not be sustainable in a competitive marketplace. Therefore, for the Commission to provide for universal service support for one class of customer and not another may be ultimately contrary to the competitive objectives espoused by the Commission and embodied within the 1996 Act.

⁹ See The 1996 Act, section 254(b)(3).

C. Reasonably Comparable Rates

The NPRM also asks for comment as to how the Commission “should determine rate levels that would be ‘affordable’ and ‘reasonably comparable’ for services identified as requiring universal service support.”¹⁰ For JSI’s clients, the most administratively simple and appropriate method is to target the state-wide average rates. Since the Regional Bell Operating Companies (“RBOCs”) typically serve the vast majority of the access lines in a state, JSI proposes that the respective RBOC rates, including the associated subscriber line charges (“SLCs”), be considered an appropriate surrogate and, therefore, be deemed as “affordable” and “reasonably comparable.” As the Commission and the respective State commissions adjust the RBOC SLCs or local exchange rates, then the threshold for affordability would also shift. Such a test also would be consistent with the mandates of the 1996 Act. Also, several State commissions are undertaking various dockets that contemplate the affordability of local rates in conjunction with the creation of State universal service funds. JSI is aware that several states either have already tied affordability to the local rates of the respective RBOC in their State, or they are considering it.

D. Retention of the Commission’s Part 36 Jurisdictional Separations Rules

In the NPRM, the Commission also asks for comment on whether the Commission’s jurisdictional separations rules should continue to be utilized.¹¹ JSI strongly encourages the continuation of the Commission’s Part 36 jurisdictional

¹⁰ See NPRM at para. 25.

¹¹ Id. at para. 30.

separations rules. JSI contends that the continued use of the Commission's Part 36 jurisdictional separations procedures is vital to the preservation of affordable telephone service in rural, insular, and high cost areas. The cost recovery mechanisms embodied in the separations procedures that have enabled subscribers in rural, insular, and high cost areas to have service at reasonable and affordable rates is consistent with the language and intent of the 1996 Act. However, JSI is amenable to the concept of shifting the recovery of such jurisdictionally separated implicit universal service cost supports, such as Dial Equipment Minute Weighting ("DEM Weighting"), from interstate switched access charges, as is currently the situation per the Commission's Part 69 rules, to an explicit federal universal service support fund. JSI believes that such action would be consistent with the mandates of the 1996 Act which requires that universal service support be specific and predictable.¹²

It is important for the Commission and the Joint Board to realize that competition in rural, insular, and high cost areas will be slow in coming. Therefore, the anticipated consumer benefits that may accrue from competition will likely not be available to rural consumers in the immediate future. Indeed, the primary interest that prospective new entrants will have in rural areas of the nation will be to target the few large toll users that exist in rural communities. This tendency makes it doubly important that the Joint Board and the Commission consider the universal service needs of the remaining rural consumers. The cost recovery mechanisms that have been part of the Part 36 separations

¹² See The 1996 Act, section 254(b)(5).

procedures have served these consumers well, and will continue to do so as the industry becomes increasingly competitive.

The Commission's Part 36 jurisdictional allocation process can also serve as a method for determining how financial responsibility should be divided between interstate and intrastate telecommunications carriers for the costs associated with the universal support mechanisms authorized under section 254 of the 1996 Act. It is clear that some sort of cost allocation methodology will still be required in order to determine how much universal service funding should come from interstate providers and how much from intrastate providers. JSI believes that it will be a waste of precious resources for the Commission to create an entirely new cost allocation process when a tested and effective process already exists.

JSI is very supportive of the statutory requirement within the 1996 Act that any support mechanisms need to be "specific, predictable and sufficient ... to preserve and advance universal service."¹³ However, the Commission and the Joint Board should not lose sight of the fact that universal service cost support mechanisms, such as DEM Weighting, need to be preserved in order for customers in rural, insular, and high cost areas to continue to have access to reasonably priced and affordable telephone service. However, as indicated above, JSI is not averse to shifting the recovery of these costs from switched access charges to a specific and predictable federal universal service fund. What JSI is most concerned about is that the recovery of these costs not be shifted to consumers in rural, insular, and high cost areas. In the 1994 study, Keeping Rural

¹³ See The 1996 Act, section 254(b)(5).

America Connected: Costs and Rates in the Competitive Era,¹⁴ it was determined that DEM Weighting needs to be preserved in order for customers in rural, insular, and high cost areas to continue to have reasonably priced and affordable telephone service. The OPATSCO study demonstrated that if the DEM Weighting cost recovery support mechanism were eliminated, monthly local exchange rates would have to increase, on average, by \$3.92 per access line.¹⁵ Indeed, in New Mexico, the monthly local exchange rate would increase by \$19.26 if DEM Weighting were eliminated.¹⁶ Clearly, even if the Commission and the Joint Board determine that DEM Weighting should be transitioned to an explicit support mechanism, this support must continue, in the form of a newly created explicit support fund, in order to ensure that consumers in rural, insular and high cost areas continue to have access to affordable, comparable and reasonably priced telecommunications service.

E. Proxy Models and Competitive Bidding Processes

The NPRM also asks for comments concerning proposals to base universal service support in rural, insular, and high-cost areas on proxy models (the NPRM specifically references a proxy model submitted to the Commission by several telecommunications carriers)¹⁷ or a competitive bidding process.¹⁸ JSI opposes both the use of proxy models and a competitive bidding process in order to determine the amount

¹⁴ See Keeping Rural America Connected: Costs and Rates in the Competitive Era, Organization for the Protection and Advancement of Small Telephone Companies, copyright © 1994 (hereinafter referred to as the "OPATSCO" study).

¹⁵ *Id.*, p. 4-6, figure 4.3.

¹⁶ *Id.*

¹⁷ See NPRM at para. 31.

¹⁸ *Id.* at para. 35.

of universal service support revenues that an Eligible Telecommunications Carrier (“ETC”) would be entitled to receive. Despite the Commission’s apparent mistrust of local exchange carrier’s reported costs, JSI cannot conceive of any better alternative for determining and directing universal service support than on the basis of factual data of study area costs. It is folly to think that the use of surrogate factors purported to measure cost differentials and the need for support in rural, insular and high cost areas can possibly work with any measure of success in a system of service providers as diverse and complex as that of the telecommunications industry. In addition, the immense difficulty, cost, and confusion of devising, implementing, and administering a mechanism of proxy factors or a competitive bidding process completely overshadow any possible benefit associated with such mechanisms.

F. Rural Service Area Definition

In the NPRM, the Commission asks for comment on whether or not it should consider changing the definition of “the ‘service area’ of a ‘rural telephone company,’ taking into account the likely possible effect on competition of a ‘service area’ definition for rural telephone companies.”¹⁹ While the effects on competition do need to be considered, it is equally important, if not more so, for the Commission and the Joint Board to consider the effects of a “service area” for rural telephone companies on universal service. As indicated earlier in these comments, competition will likely be late in coming to many rural markets, and where it does come it will probably be very

¹⁹ See NPRM at para. 45.

targeted. New local exchange carriers will have primary interest in the few large toll users that are in rural communities. These large toll users typically provide a disproportionate percentage of revenues for many small, rural telephone companies. It is important that any service area definition for rural telephone companies require prospective new entrants to serve the entire area, as is required by the existing statutory definition, in order to minimize such “cherry picking.” JSI has performed studies for several of our client companies that demonstrate the very real danger of these companies losing the top five percent (5%), ten percent (10%), fifteen percent (15%), and twenty percent (20%) of their customers to competitive local exchange carriers. These studies have consistently shown that local exchange rates of the remaining customers may be required to be increased by several hundred percent, in certain instances, in order to make up for the loss of these top revenue customers. Obviously, rate increases of this nature are contrary to the principles of universal service embodied in the 1996 Act. The current study area definition for rural telephone companies helps to minimize the potential of such losses by requiring new entrants to serve the entire study area.

G. Recipients of a Federal Universal Service Support Fund

The NPRM asks for comment on how “to ensure that all eligible carriers -- and no ineligible carriers -- receive the appropriate amount of universal service support.”²⁰ It is JSI’s belief that only non-price cap companies, which are also classified as ETCs in their respective service territories, should be eligible to receive federal universal service

²⁰ *Id.* at para. 41.

support revenues. As indicated in the NPRM, this is consistent with the universal service mandates of the 1996 Act.²¹ The 1996 Act further gives State commissions the authority to only authorize one ETC in rural areas of the Nation.²² These provisions in the 1996 Act are very positive universal service provisions and will help maintain the availability of universally affordable local exchange service in the rural areas. JSI enthusiastically supports these provisions and encourages the Commission and the Joint Board to adopt rules that embrace their intent in furthering and fostering universal service.

JSI believes that limiting universal service support fund participation to only non-price cap companies is justified since the Commission has already determined that price cap companies are of sufficient size to operate efficiently without raising rates, and, in fact, recognizes that the Commission's rules create additional earning incentives to encourage such efficiencies. To the extent that a price cap company may require cost support for a rural, insular or high cost area, it can avail itself of the Commission's waiver request process. Using information from the latest universal service fund data collection, JSI estimates that the existing 1996 Universal Service Fund would have been reduced by approximately \$225 million to \$250 million if the price cap companies had been excluded. JSI further recommends that such a plan be phased in over a three (3) year period.

²¹ Id.

²² See The 1996 Act, section 214(e)(2).

III. Other Universal Service Support Mechanisms

At paragraph 114, the NPRM seeks comments on its proposal to eliminate the Carrier Common Line (“CCL”) charge and recover these costs entirely from end users.²³ Also, at paragraph 115, the NPRM seeks comments on a proposal to eliminate the recovery of Long-Term Support (“LTS”) revenues through the incumbent local exchange carrier’s access charges.²⁴ As stated above, JSI submits that the continuation of the support mechanisms embodied in the Commission’s current Part 36 separations procedures are vital to the principle of reasonably priced and affordable telephone service in the rural areas of our nation. JSI contends that if the Commission were to eliminate the cost support generated by the CCL charge and the LTS payment, the burden that would be shifted to end users in rural areas in the form of higher SLCs could well be significant enough to force many rural customers to abandon their telephone service. As stated earlier in these comments, JSI would support a shifting of the recovery of the cost support generated by the CCL charge and the LTS payment from switched access charges to an explicit federal universal service support mechanism. However, the recovery of these costs should not be shifted to the end users in rural, insular, and high cost areas.

As has been demonstrated to the Commission in previous proceedings, the cost of providing telephone service to rural areas in the nation is significantly higher than the cost of providing service to urban communities. The cost differential is especially apparent when it comes to a rural telephone company’s non-traffic sensitive (“NTS”) or loop costs. The local exchange carriers serving the rural areas of the nation must provide

²³ See NPRM. at para. 114.

²⁴ Id. at para. 115.

service to much smaller and geographically dispersed populations than local exchange carriers providing service to the urban areas. In a recent survey published by the National Exchange Carrier Association²⁵ ("NECA"), more than fifty percent (50%) of NECA's member companies have less than twenty (20) customers per square mile. Comparatively, the Tier 1 companies serve 425 percent (425%) more access lines per square mile. In addition, fifty-nine percent (59%) of NECA member companies have operating territories greater than 200 square miles.

Due to their higher than average loop costs, most small telephone companies do not recover a significant portion of their loop costs allocated to the interstate jurisdiction from subscribers through the flat monthly subscriber line charge. Unlike the RBOCs and other Tier 1 local exchange companies, small telephone companies only recover, on average, approximately forty percent (40%) of their interstate loop costs from the SLC. The remainder of a rural local exchange company's interstate loop revenue requirement is recovered from the per minute CCL charge and the LTS mechanism. If the universal service contributions were shifted from the CCL charge and LTS mechanism to the rural end user in the form of a higher SLC, the current residential and single line business rate of \$3.50 would increase, on average, to approximately \$9.00 or 157 percent (157%).²⁶ An increase of the magnitude indicated would most likely have an adverse impact on telephone subscribership in rural areas. In addition, the SLC to subscribers in rural areas would be significantly greater than the SLC in urban areas since the RBOCs have already

²⁵ See Telecommunications: America's Vital Link, National Exchange Carrier Association, Inc., copyright © 1995.

²⁶ This calculation was derived from information presented in the OPASTCO study, p.2-11, figure 2.7.

transitioned a majority of their loop costs to their subscribers. This significant variation in the SLC between urban and rural subscribers would surely violate the very principles embodied in Section 254(b) of the Communications Act.

JSI maintains that there are no valid reasons for making significant changes in the manner in which rate-of-return local exchange companies' loop costs are allocated to the interstate jurisdiction. There should be no change in the Commission's Part 36 jurisdictional separations procedures which call for the allocation of a flat twenty-five percent (25%) of a local exchange carrier's loop costs to interstate. JSI also believes that a rate-of-return local exchange carrier should continue to recover its interstate loop costs from the interstate jurisdiction either in the manner in which these costs are currently recovered (i.e., via a SLC levied on the end user, a per minute of use charge levied on the interexchange carriers and a LTS mechanism) or through an explicit federal universal service support fund.

As mentioned previously, JSI does not believe that the end user should bear the entire cost of the loop. Interexchange carriers ("IXCs") also benefit from having a loop to a potential customer, especially in rural areas where the cost to duplicate construction of a loop to a customer, by an IXC, would be prohibitively expensive. Therefore, JSI believes that IXCs should continue to pay for the use of the local exchange carrier's loops on a usage sensitive basis. For local exchange carriers that are members of NECA's Common Line (CL) pool, the CCL rate is currently set at \$0.0083 per originating and terminating minute of use. JSI maintains that the CCL rate is not a subsidy since it is priced well below its underlying costs. In fact, the OPASTCO study indicated that the cost differential between a rural local exchange carrier's interstate loop revenue

requirement calculated at an 11.25% rate of return and what the company collects from its subscribers from the monthly SLC, expressed on a per minute of use basis, is approximately \$0.0324 per originating and terminating minute of use.²⁷

Therefore, JSI contends that IXCs should continue to be assessed a usage sensitive based CCL rate. The remaining loop costs for LECs, historically recovered via the LTS mechanism should continue to be recovered, but in an explicit and nondiscriminatory manner and not on a per minute of use basis.

IV. Administration of Support Mechanisms

The NPRM asks for comments on whether or not the Commission should expand the base of support for universal service, as authorized under section 254(d) of the 1996 Act.²⁸ According to the Commission's Section 69.116 rules, interstate carriers with more than 0.05% of the presubscribed line in all study areas are required to contribute to the current universal service fund. Under the Commission's current rules, less than fifty (50) interstate carriers are assessed the tariffed rate per presubscribed line. It is quite evident that competition in all telecommunications jurisdictions will continue to accelerate and many consumers, primarily in urban areas, will have choices of multiple carriers for their calling needs. Certainly, all interstate service providers should be required to make a commitment to the continuation of universal service and, therefore, contribute to a universal service support mechanism.

²⁷ See The OPASTCO Study, p. 2-11, figure 2.7.

²⁸ See NPRM at para. 119.

JSI believes that the most equitable way to ensure the continuation of universal service is to require all providers of interstate telecommunications, including transmission services, as discussed in paragraph 119 of the NPRM,²⁹ to contribute to universal service based upon their proportion of interstate gross revenues to total interstate gross revenues generated by all interstate telecommunications providers. There is a great deal of precedent for basing universal service funding on revenues. For example, the Commission's Telecommunications Relay Services ("TRS") Fund is contributed to by all carriers providing interstate telecommunications service based on a portion of each carrier's respective gross interstate revenues. Also, in local competition proceedings underway in many States, the creation of intrastate universal service funds seems to be a constant among all the various plans designed to ensure the continuation of affordable local exchange service. JSI is not aware of any intrastate universal service fund currently in operation, or being considered, where funding is based on anything other than revenues. The States have recognized the importance of requiring all providers of telecommunications service within their respective borders to contribute and thus further the objectives of universal service.

The NPRM also asks for comment on a proposal to have universal service funds collected and distributed by State public utility commissions.³⁰ JSI has gone on record before the Commission in previous dockets opposing this concept.³¹ As we stated before, such a plan will only add another layer of bureaucracy and expense to the process. The

²⁹ Id.

³⁰ Id., at para. 130.

³¹ See In the Matter of Amendment of Part 36 of the Commission's Rules And Establishment of a Joint Board, Notice of Proposed Rulemaking and Notice of Inquiry, CC Docket No. 80-286, FCC 95-282, released July 13, 1995, p. 21.

1996 Act requires the Commission to establish universal service support mechanisms that are specific and predictable.³² To burden State commissions with the responsibility of designing and implementing plans for a federal universal service fund would simply add complexity and delay to the process. This is also consistent with JSI's position, as stated earlier in these comments, that the Commission should retain their Part 36 jurisdictional separations rules as they relate to support for rural, insular and high cost areas. A federal universal service support fund should be administered by the Commission, an agent of the Commission such as NECA, or an independent third party authorized by the Commission. Similarly, any State universal service funds should be administered by the respective State commission. Allowing State commissions to administer a federal universal service support fund would also be contrary to the provisions in the 1996 Act which require that universal service support be specific and predictable.³³ A State administered federal universal service support fund would not be predictable since each State could very likely treat these federal universal service funds in a unique manner, providing no consistent predictability for the companies in need of such support. Again, such a plan is neither necessary nor advisable and is contrary to the principles within the 1996 Act.

V. Conclusion

JSI appreciates the opportunity to comment in this proceeding and encourages the Commission and the Joint Board to keep the universal service mandates clearly in mind

³² See The 1996 Act, section 254(d).

³³ Id. at section 254(b)(5).

as they move forward with this matter. The principle of universally available, affordable local exchange service, in all areas of the Nation, has long been accepted and supported throughout the telecommunications industry. The 1996 Act mandates that universal service continue to be promoted even in light of the introduction of competition into local exchange telecommunications markets. JSI enthusiastically supports the universal service principles laid out in the 1996 Act.


The Commission's Part 36 jurisdictional separations rules have been a very effective tool enabling the Commission and local exchange companies serving rural, insular, and high cost areas to foster and promote universal service. As such, JSI believes that these rules need to be retained from the perspective of jurisdictionally separating and identifying the necessary universal service cost supports. However, JSI is not averse to shifting the recovery of implicit universal service cost supports, such as DEM Weighting, from interstate switched access charges, as is the current practice, to an explicit federal universal service support mechanism. JSI contends that, while shifting the recovery of implicit universal service cost supports to an explicit federal universal service support fund is consistent with the 1996 Act, requiring the recovery of these costs from customers residing in rural, insular, or high cost areas in the form of increased SLCs or local rates is contrary to the 1996 Act.

JSI also believes that the most equitable way to ensure the continuation of universal service is to require all providers of interstate telecommunications, including transmission services, to contribute to universal service based upon their proportion of interstate gross revenues to total interstate gross revenues.

Finally, JSI contends that it would be both administratively burdensome and in conflict with the 1996 Act for the Commission to have federal universal service support funds collected and distributed by State public utility commissions. A federal universal service support fund should be administered by the Commission, an agent of the Commission such as NECA, or an independent third party authorized by the Commission. Similarly, any State universal service funds should be administered by the respective State commission.

Respectfully submitted,

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